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DOS review completed

EUROPE

1. **GERMANY: US to maintain firm stand in Berlin--**The Department of State has informed US Ambassador Douglas that the US is prepared to continue its unprovocative but firm stand in Berlin, utilizing to the utmost the propaganda advantages of the situation. The Department agrees to Foreign Secretary Bevin's proposal to maintain a complete exchange of information on the German situation through US Embassy London. Douglas is authorized to inform Bevin that the US may wish to send several B-29 bomber groups to the United Kingdom.

Douglas reports from London that Bevin has expressed a personal view that withdrawal of the western powers would have serious, if not disastrous, consequences in Germany and throughout Europe. Douglas has learned that Bevin will address the House of Commons on 29 June and take a line of "complete firmness" toward the situation in Berlin.

US Ambassador Caffery reports that a high official of the French Foreign Office has stated his strong belief that withdrawal from Berlin could be considered only if some "very important" counter concession were granted by the USSR to offset the "tremendous loss" of prestige such a withdrawal would imply.

Berlin economic ties with West seriously weakened--
US Ambassador Murphy points out that one of "the more serious problems" in the present situation in Berlin is that Soviet interference with freight shipments to the West has piled up in Berlin so large an amount of manufactured goods that many Berlin firms may be forced within the next two or three weeks to suspend production, thus creating unemployment. Murphy indicates that Soviet Zone authorities are approaching firms in the Berlin western sector with offers to buy their production. Murphy says that unless a break in the traffic situation occurs soon, western Berlin industry will be geared into Soviet zonal production; consequently, the western powers will lose not only the industrial output they now obtain from Berlin but also effective control and influence over industries and workers.

State Dept. declassification & release instructions on file

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NO CHANGE in Class. ☐- 1 - ☐ DECLASSIFIED

DIA review completed.

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(CIA Comment: CIA concurs in the view that the feeding of Berlin by the western powers will not in itself be sufficient to offset the threatened Soviet control of the economic life of the city and that a solution must be found to the traffic and unemployment deadlock.)

FAR EAST

2. CHINA: Rapid deterioration in Nationalist position--The US Military Attache in Nanking reports that recent events in China indicate a "rapid deterioration and loss of control by the National Government." The MA cites the following events: (a) the soaring of the black market exchange rate to over five million Chinese dollars for one US dollar (an 100% increase in 48 hours); (b) the temporary loss of Kaileng (capital of Honan province) to the Communists; (c) rice riots in Chungking; (d) the resignation of all police officers in Peiping following an attack upon the police commissioner there; and (e) clashes between Nationalist soldiers and civil police in Tientsin. The MA connects the rapid rise of the black market exchange rate to an "unconfirmed rumor" in Shanghai that Chiang Kai-shek is in custody in Sian. In reporting the existence of such a rumor, US Embassy Nanking declares that it is "highly skeptical" that the rumor has any basis in fact.

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